

ISSUE

Under the circumstances described below, does a library network organization that provides bibliographic information to member libraries, some of which are not tax-exempt, qualify for exemption from federal income tax under section 501(c)(3) of the Internal Revenue Code?

FACTS

The organization, which otherwise qualifies for exemption under section 501(c)(3) of the Code, was formed to assist academic research libraries, state libraries and agencies, and other library organizations in exchanging bibliographic information. The organization has developed a computer network to enable participating libraries to exchange bibliographic information.

The organization does not provide other services, such as routine administrative functions, to the member libraries. Membership includes libraries of colleges, universities, and historical societies, which are exempt under section 501(c)(3), and libraries of state and federal agencies. Libraries of business entities, which are not exempt from federal income tax, are also members of the organization.

Income is derived by the organization from each of the member libraries for cost of computer time used plus service charges.

LAW AND ANALYSIS

Section 501(c)(3) of the Code provides for the exemption from federal income tax of organizations organized and operated exclusively for charitable purposes.

Section 1.501(c)(3)-1(d)(2) of the Income Tax Regulations provides that the term 'charitable' includes the advancement of education or science.

Rev. Rul. 74-614, 1974-2 C.B. 164, holds that an organization that operates a regional computer network to assist its members in exchanging educational and scientific information is advancing education. The users of the system described therein are colleges and universities that are individually exempt from federal income tax under section 501(c)(3) of the Code.

The exempt status of the users in Rev. Rul. 74-614 is merely one of the facts indicating that the organization is operated in furtherance of educational purposes. The organization's computer network is not used to accomplish routine administrative functions of the users, such as class scheduling, billing students for fees, processing admission applications, or other similar purposes. In this case, the computer network is also not used to accomplish

such routine administrative functions of the users.

The computer network makes useful bibliographic information available to researchers and this advances education within the meaning of section 501(c)(3) of the Code and section 1.501(c)(3)-1(d)(2) of the regulations. The fact that the information is furnished to both exempt and non-exempt libraries does not detract from the educational value of the information itself.

Rev. Rul. 74-614 is amplified to reflect that an organization that operates a computer network to assist its members in exchanging educational or scientific information may qualify for exemption from federal income tax under section 501(c)(3) of the Code although some member users are not exempt from federal income tax.

HOLDING

Under the circumstances described above, a nonprofit organization that provides bibliographic information to member libraries, some of which are not tax-exempt, is operated exclusively for charitable purposes and qualifies for exemption from federal income tax under section 501(c)(3) of the Code.

APPLICATION INSTRUCTIONS

Even though an organization considers itself within the scope of this revenue ruling, it must file an application on Form 1023, Application for Recognition of Exemption, in order to be recognized by the Service as exempt under section 501(c)(3) of the Code. See sections 1.501(a)-1 and 1.508-1(a) of the regulations.

In accordance with the instructions to Form 1023, the application should be filed with the District Director of Internal Revenue for the key district indicated therein.

EFFECT ON OTHER REVENUE RULINGS

Rev. Rul. 74-614 is amplified.